

**LEGISLATIVE SERVICES AGENCY  
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House  
(317) 232-9855

**FISCAL IMPACT STATEMENT**

**LS 7604**

**BILL NUMBER: HB 1843**

**DATE PREPARED:** Jan 23, 2001

**BILL AMENDED:**

**SUBJECT:** Long Term Care Insurance Tax Deduction.

**FISCAL ANALYST:** Brian Tabor

**PHONE NUMBER:** 233-9456

**FUNDS AFFECTED:** X

**GENERAL  
DEDICATED  
FEDERAL**

**IMPACT:** State & Local

**Summary of Legislation:** This bill provides that a taxpayer who pays premiums for a long term care insurance policy for a parent, grandparent, stepparent, or step grandparent of the taxpayer or the taxpayer's spouse may deduct an amount equal to the portion of the premiums paid in the taxable year from the taxpayer's Adjusted Gross Income (AGI). It also removes a provision restricting the tax deduction to premiums paid for insurance policies that are "qualified" for purposes of the Indiana Long Term Care Program.

**Effective Date:** January 1, 2002.

**Explanation of State Expenditures:** The Department of State Revenue (DOR) will incur some administrative expenses related to the revision of tax forms, instructions, and computer programs to incorporate this change. These expenses could be absorbed given the DOR's existing budget and resources.

**Explanation of State Revenues:** *The reduction in state income tax revenue associated with this bill is estimated to be between \$4.4 M and \$6.5 M in FY 2003. However, if this deduction effectively creates an incentive for the purchase of long term care insurance policies, the state may benefit indirectly through savings in Medicaid expenditures (see information below).*

This bill makes changes to an existing deduction from an individual's state taxable income for premiums paid on qualified long term care insurance policies. Under current law, qualified policies must be approved by the Indiana Long Term Care Insurance Program. This bill would allow a taxpayer to deduct the amount of premiums paid for any coverage under an individual or group long term care insurance policy (or for the long term care portion of a life insurance policy or annuity).

The bill also allows the deduction to be taken for coverage of the taxpayer, the taxpayer's spouse, parents, stepparents, grandparents, and step grandparents. Current law allows the deduction to be taken only for the taxpayer or the taxpayer's spouse.

*Data and Estimation:* Based on data from the Family and Social Services Administration and the Health Insurance Association of America (HIAA), the penetration rate of long-term care insurance (LTCI) policies in Indiana is between 10% and 14%. According to U.S. Census projections, there were 763,000 Indiana residents aged 65 and older as of July 1, 2000. Using the LTCI penetration rates and Census figures, a range of between 85,700 and 120,000 policy holders was estimated for CY 2002. However, individuals who participate in the Indiana Long Term Care Insurance Program would be eligible for a tax deduction regardless of this proposal, and those taxpayers were subtracted from the net impacts. As of September 30, 2000, Indiana residents had purchased 12,640 Indiana Partnership Policies. (In addition, an annual growth rate of 6% was used for LTCI policies in this analysis.)

According to the most recent estimate from the HIAA, the average annual premium for the purchase of an LTCI policy is \$1,806. Based on this information, the FY 2003 impact is estimated to be a revenue loss of between \$4.4 M and \$6.5 M (the number of taxpayers multiplied by the premium cost multiplied by the 3.4% Individual AGI Tax rate). The reduction in revenue could increase if the deduction is successful as an incentive for purchasing long-term care insurance.

This deduction would be effective for tax years beginning January 1, 2002, and would impact state revenue beginning in FY 2003. Individual AGI Tax revenue is deposited in the General Fund.

*Impact on Medicaid:* Providing an incentive for Indiana taxpayers to purchase LTCI policies could reduce future Medicaid expenses for individuals in nursing homes. Some policy holders would not be eligible for Medicaid upon entering a nursing home while other eligible patients would have their average daily Medicaid payment reduced by an amount equal to the daily insurance benefit (Cohen, Kumar, and Wallack, 1994). According to one study, the average savings that accrue to the Medicaid Program are \$3,500 to \$6,854 per policyholder over the life of a cohort of policyholders (in 1990 dollars).

Based on Indiana's Medicaid cost share of 38% and after inflating costs to 2002 levels, each additional purchaser of LTCI policies could generate a savings of \$2,010 to \$3,936 in state expenditures per policyholder *over the life of a cohort of policyholders*.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:** Counties imposing local option income taxes will experience an indeterminable reduction in their revenue from these taxes due to expansion of this deduction.

**State Agencies Affected:** Department of State Revenue.

**Local Agencies Affected:** Counties with local option income taxes.

**Information Sources:** Cohen, Marc A., Nanda Kumar, and Stanley S. Wallack, "Long-Term Care Insurance and Medicaid", Health Affairs, Fall 1994, pp 127-139; Cohen, Marc A. and Weinrobe, Maurice, "Tax Deductibility of Long-Term Care insurance Premiums", HIAA, March 2000; Susan Preble, Legislative Liaison, Family and Social Services Administration, (317) 232-1149.